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Meridian Energy Limited 2010 Annual Results

For year ended 30 June 2010

August 24, 2010

Disclaimer

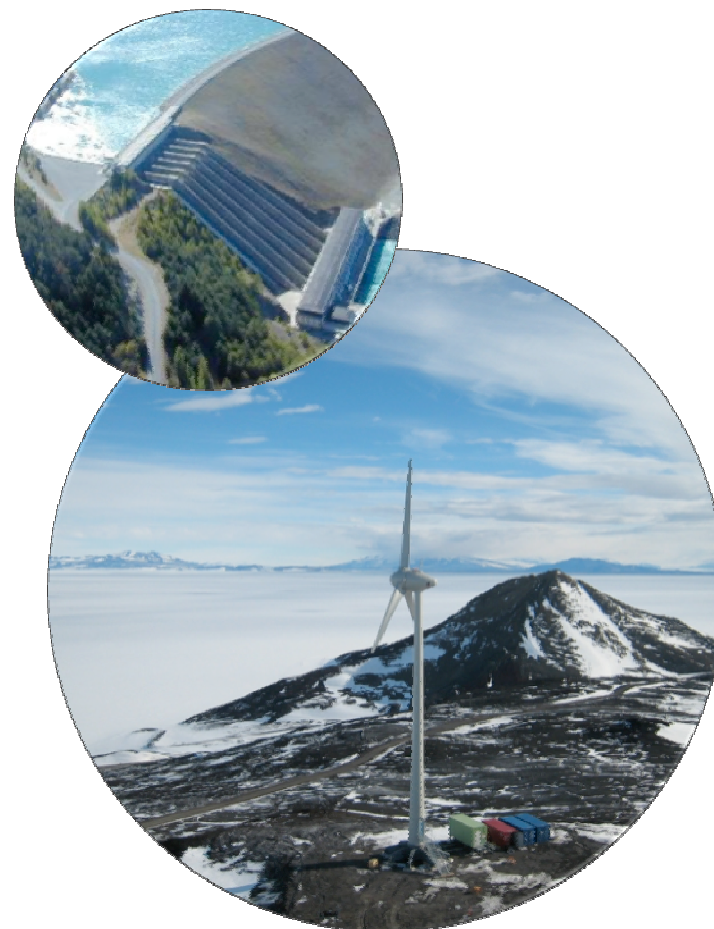


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Agenda



Meridian Background
Results Highlights
Group Financials
Operational Review
Outlook





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Achievements this year

- » **29%** uplift in underlying NPAT, **11%** uplift EBITDAF per MWh Generated
- » **50%** reduction in lost time injuries
- » **219MW** of new renewable generation added
 - » 143MW West Wind, Wellington
 - » 70MW Mt Millar wind farm, South Australia
 - » 3 Turbines constructed and commissioned on Ross Island, Antarctica
 - » 5MW utility scale solar, California
- » **17% growth** in Meridian's retail North Island customers
- » **64MW** wind farm under construction at Te Uku, near Raglan
- » **\$200 million** successfully raised through New Zealand's first online issue of retail bonds
- » **120MW** wind farm consented in Waiohuru, for project Central Wind
- » **85 – 100MW** hydro scheme consented on the West Coast, for project Mokihinui hydro
- » **641% growth (14,211 customers)** in Powershop on-line retail customers
- » **Managed record high inflows** into storage catchments, avoiding civil emergencies
- » **6%** increase in staff engagement scores

Financial Highlights



	Jun 10	Jun 09	% Change
Total Group Operating Revenue	\$ 2,061.9 m	\$ 1,892.4 m	↑9%
EBITDAF	\$ 641.7 m	\$ 512.4 m	↑ 25%
NPAT	\$ 184.0 m	\$ 89.3 m	↑ 106%
Underlying NPAT*	\$ 251.9 m	\$ 195.0 m	↑ 29%
EBITDAF per MWh of Generation	\$ 46.29	\$ 41.87	↑ 11%
Dividends Paid	\$ 353.5 m	\$ 30.0 m	↑1,078%

- » A 25% increase in earnings before interest, tax, depreciation, amortisation and fair value movements (EBITDAF)
- » Growth of 11%, in our key productivity measure, EBITDAF per MWh of Generation
- » \$ 251.9m underlying Net Profit After Tax (NPAT), growth of 29% and a record result
- » Dividends of \$353.5m paid to our shareholder in this year
- » Final dividend declared for the year to June 2010 of \$68.5m

* Underlying NPAT – an adjusted net profit after tax, removing the effects of fair value movements and other one off items



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Group Financial Performance Highlights

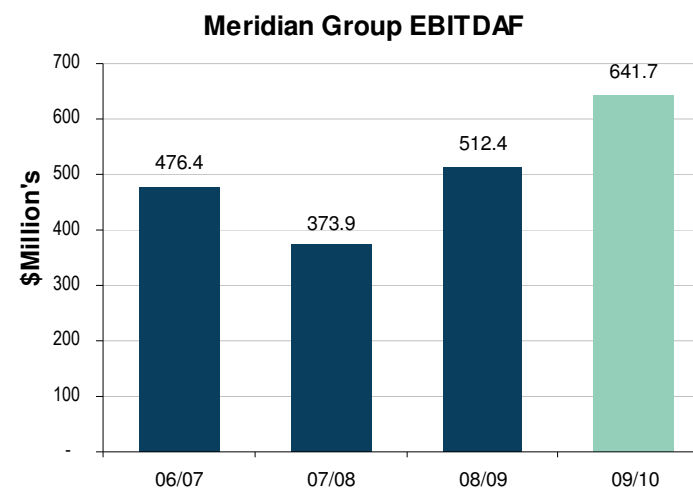
\$M	Jun 10	Jun 09	% Change
Total Operating Revenue	2,061.9	1,892.4	↑ 9%
Energy Related Expenses	(743.6)	(788.5)	↓ 6%
Energy Transmission and Distribution	(425.9)	(373.0)	↑ 14%
Employee Expenses	(87.3)	(76.0)	↑ 15%
Other Operating Expenses	(163.4)	(142.5)	↑ 15%
EBITDAF	641.7	512.4	↑ 25%
Net Change on Electricity, Aluminium & Foreign Exchange Derivatives	(48.0)	(114.1)	↓ 58%
Depreciation, Amortisation, Impairments and Gain / (Losses) of Property, Plant & Equipment	(206.1)	(167.5)	↑ 23%
Equity Accounted Earnings of Associate	(2.0)	(1.9)	↑ 5%
Group Operating Profit	385.6	228.9	↑ 69%
Net Finance Costs	(85.1)	(68.4)	↑ 24%
Unrealised Gains/(Losses) on Financial Instruments	(23.3)	(32.5)	↓ 28%
Group Profit before Tax	277.2	128.0	↑ 117%
Income Tax	(93.2)	(38.7)	↑ 141%
Net Profit/(Loss) after Tax	184.0	89.3	↑ 106%



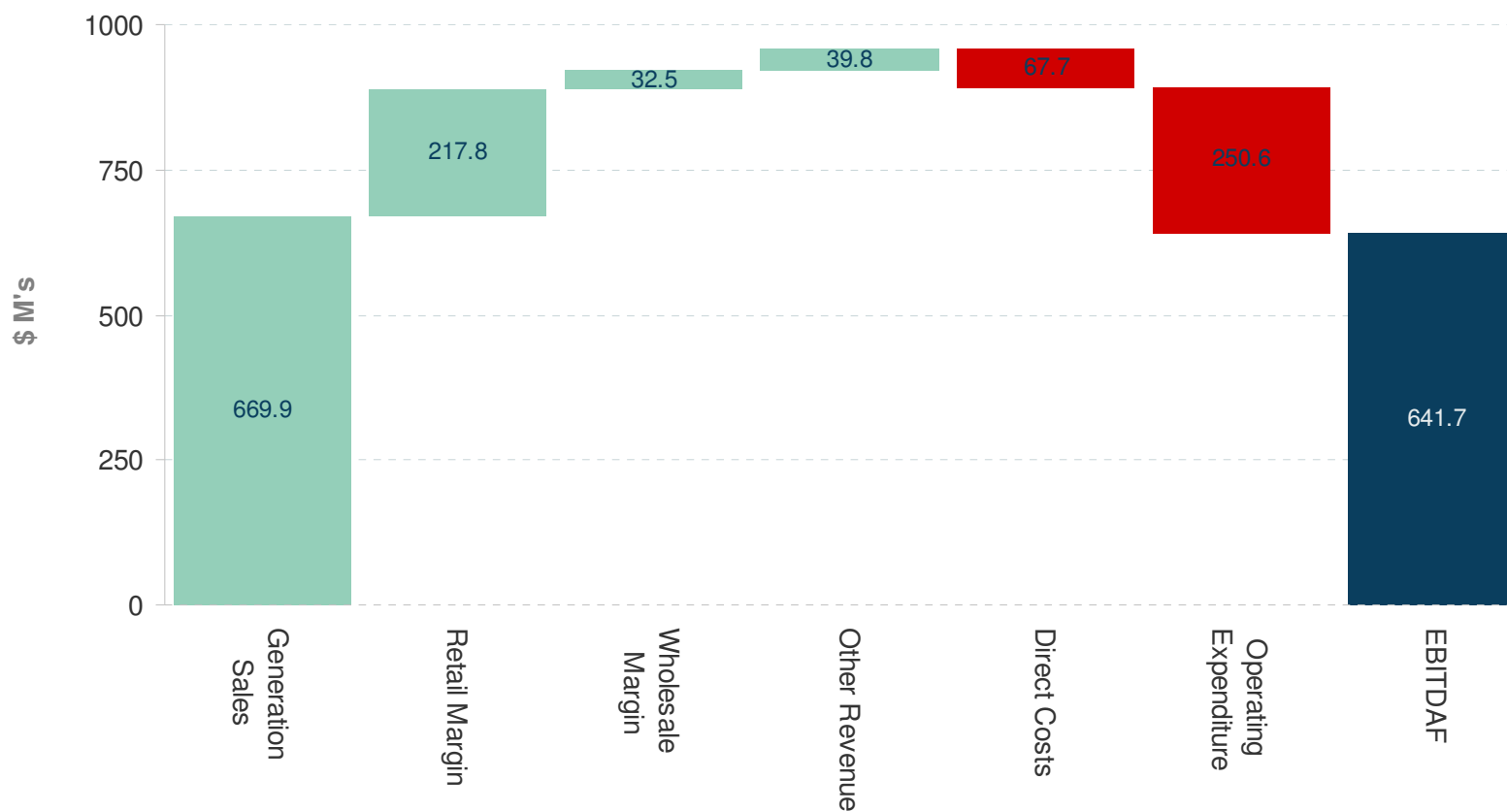
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Key Drivers of EBITDAF

- » Better overall hydrology position, maintaining storage above mean and increasing hydro generation
- » Underlying national demand remained flat but Tiwai Point back to full production
- » Doubling of wind generation with the commissioning of West Wind
- » Improved retail earnings, despite a residential price freeze, through a greater focus on getting the basics right and enhanced coordination between our wholesale and retail businesses
- » Large rise in transmission and distribution costs driven by lower HVDC rental rebates and an 8% increase in retail distribution costs
- » Underlying expenditure has remained flat. A series of one-off value adding items increased operating costs above last year, we are well placed for cost reduction next year



Sequential Review of Our Result



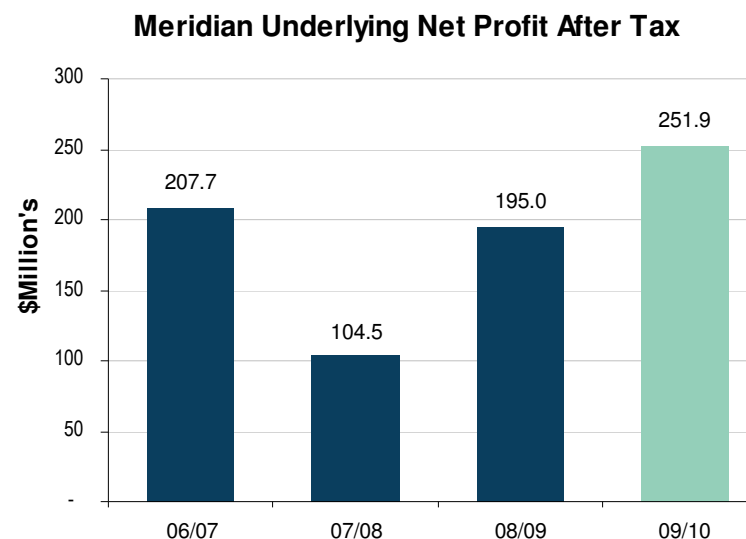
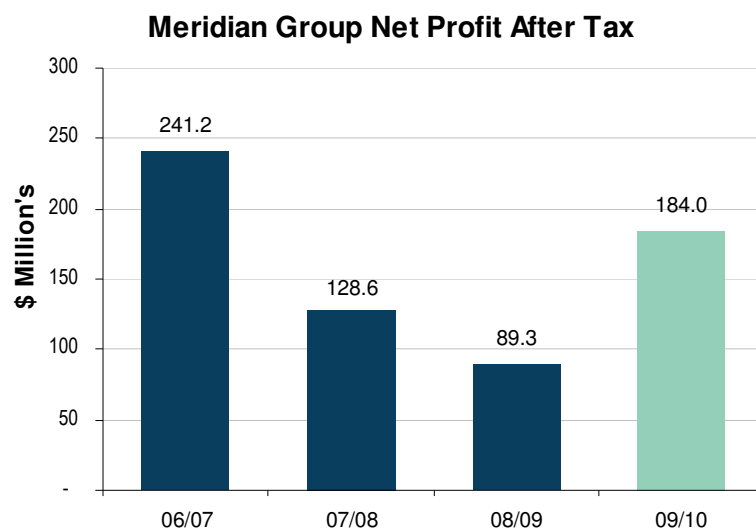
Retail and wholesale margins are energy only and exclude transmission expenditure and pass through of distribution and levies (included within direct costs)



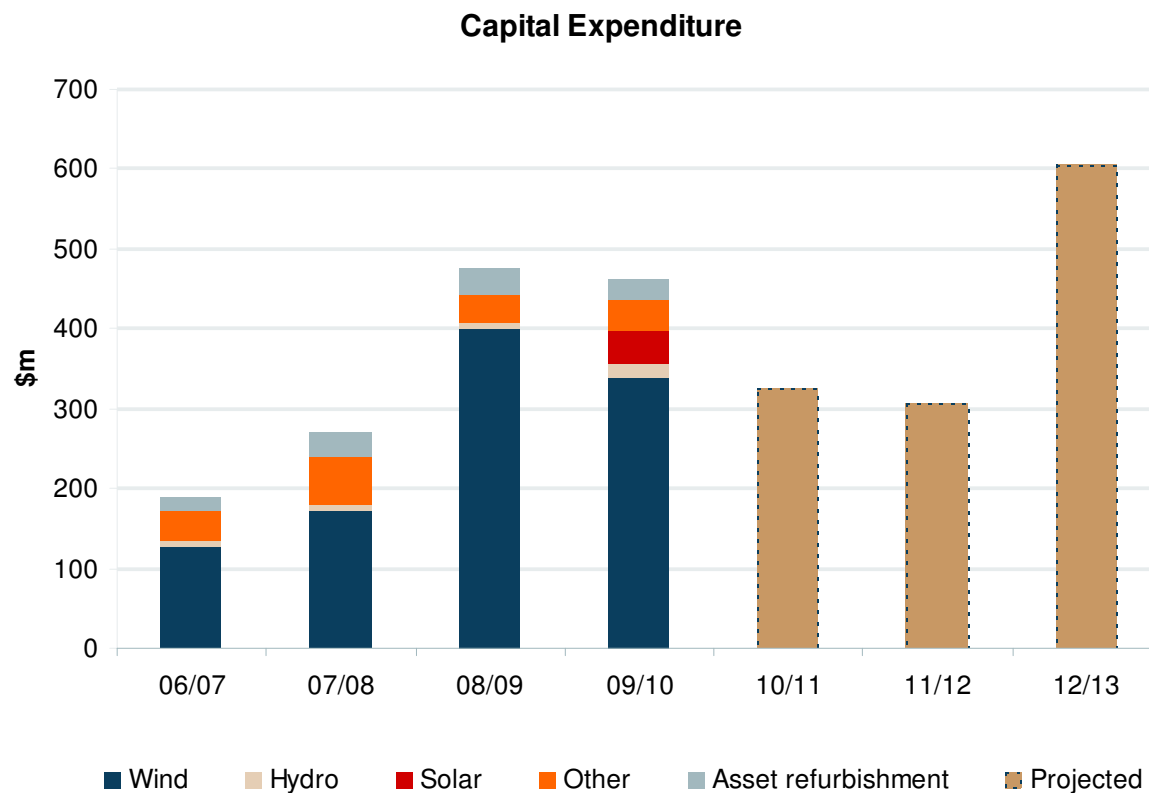
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Drivers of Net Profit After Tax

- » Strong EBITDAF performance
- » Depreciation increased as new generation builds become operational
- » Two information technology projects were impaired this year (\$17m). In both cases it became evident that the course of action chosen was not going to deliver the anticipated step change and benefits
- » Income tax includes the positive impact of reduction in corporate tax rate and the negative impact of change in tax depreciation rules on buildings upon deferred tax
- » Net finance cost increase driven by lower capitalised interest and higher levels of overall debt
- » Fair value movements mainly reflect appreciation of NZ dollar, downwards movement in swap rates and aluminium prices



Capital Expenditure



- » Completed West Wind, Ross Island and CalRENEW-1 Solar. Commenced Te Uku
- » 2009/10 wind expenditure includes the A\$191million Mt Millar acquisition

Funding



Debt Maturity Profile (\$m)

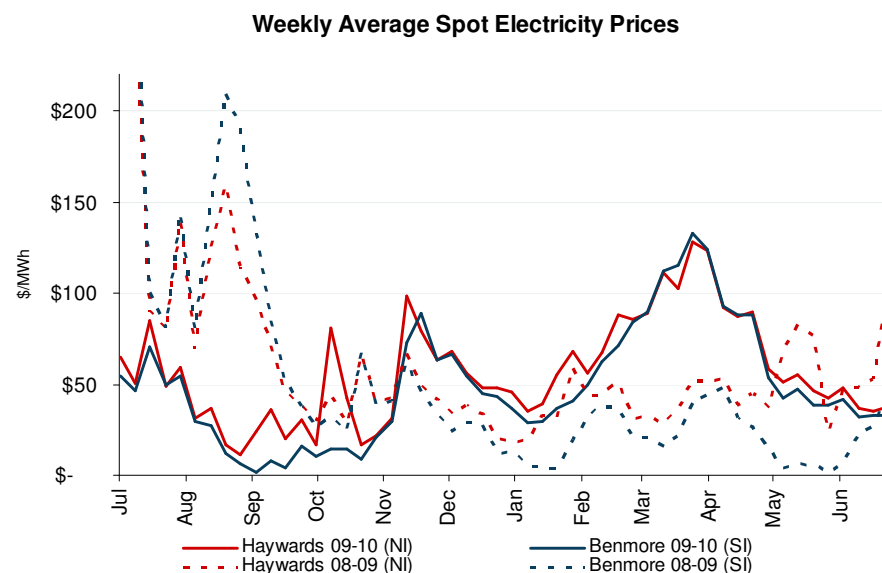
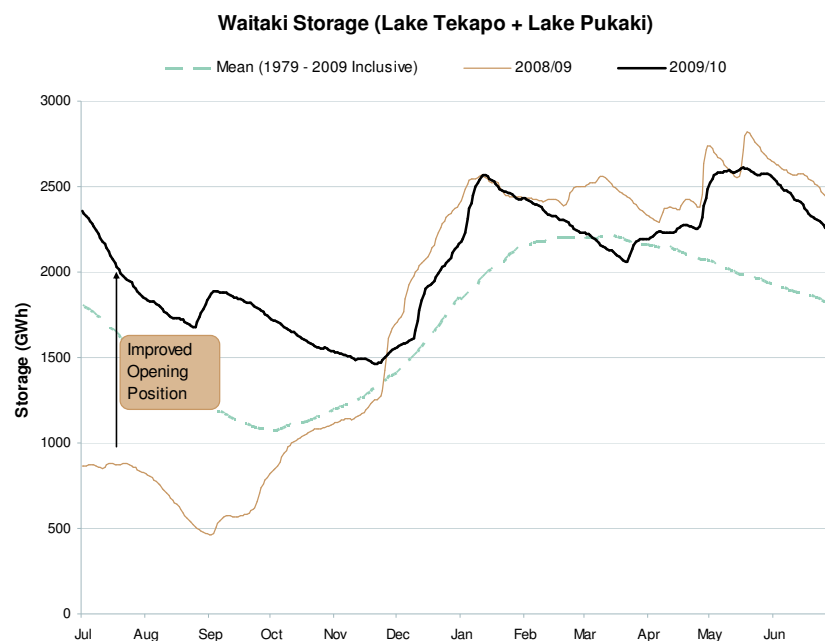


- » S&P A2, BBB+ (stable outlook) credit rating retained
- » Cash and undrawn debt facilities of \$740m
- » Debt increased from \$1,252m as at 30 June 2009 to \$1,546m as at 30 June 2010
- » Diversity and tenor of funding improved through successfully issuing \$200m of Renewable Energy Bonds ("REBs"), \$125m maturing in 2015 and \$75m in 2017. Also putting in place a 15 year fully amortising \$150m Danish Export Credit Facility with EKF (the official export credit agency of Denmark)



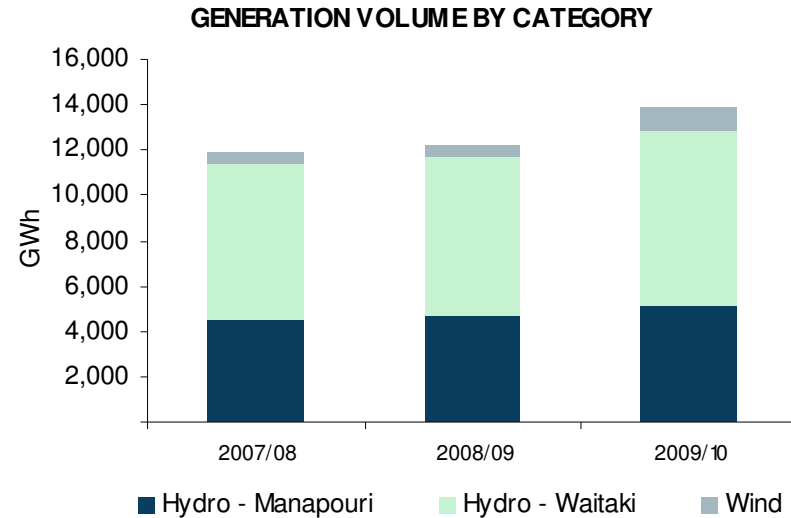
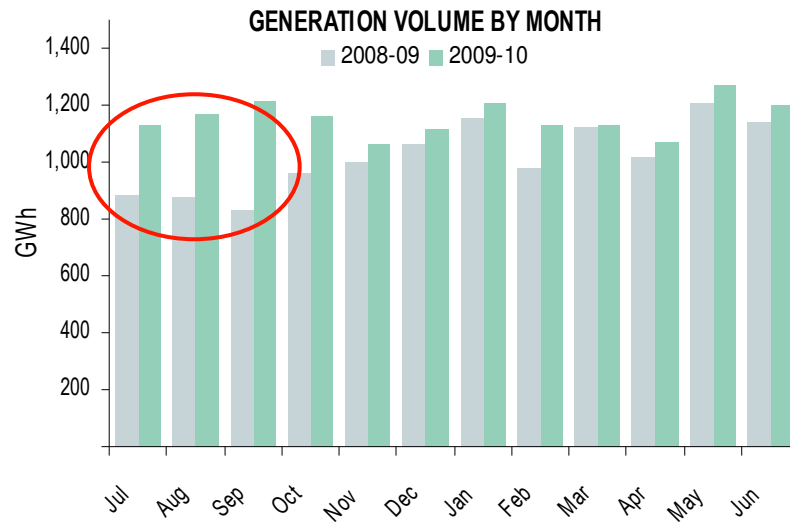
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Storage, Inflows & Prices



- » Hydro storage remained above average throughout the year
- » High starting position coupled with above average inflows throughout winter 2009, and again in the autumn of 2010
- » Average generation prices in-line with last year at \$48.33/MWh
- » North Island lake levels low in second half of year
- » Periods of inter-island price separation reduced compared with 08/09

Generation



- » Generation volume increased by 13%
 - » Wind generation doubled with the commissioning of West Wind
 - » Hydrological conditions - 2008/09 had very low starting storage and low inflows until September
 - » Increased demand from RTANZ following the return of pot-line
 - » Availability of Pole 1 on the HVDC supported increased South Island generation

Improving our Earnings – Fit for Purpose

- » During the year we implemented a series of changes to sustainably improve our performance

Cost Reduction

- » Reduced corporate centre headcount
- » Retail reorganisation focused on reducing cost to serve
- » Retail revenue leakage reduction programme
- » Step change in IT outsourcing

Commercial Focus

- » Enhanced capital allocation disciplines
- » Integrated decision making and performance management framework
- » Stronger linkage between individual rewards and strategically aligned objectives
- » The benefits of the Fit for Purpose review are already becoming evident
- » We must continue to improve our commercial performance

Wholesale Performance



\$M	Jun 10	Jun 09	% Change
Wholesale Revenue	1,048.8	905.7	↑ 16%
Wholesale Electricity Costs	(264.5)	(286.3)	↓ 8%
Transmission & Levies	(98.2)	(74.4)	↑32%
Other Wholesale Electricity Costs	(10.5)	(4.2)	↑150%
Staff and Other Operating Costs	(72.8)	(51.8)	↑41%
EBITDAF	602.8	489.0	↑ 24%
EBITDAF per MWh Generated	\$ 43.49	\$ 39.96	↑ 9 %
Generation Volumes GWh	13,862	12,237	↑ 13 %

- » Availability of water in our hydro catchments is the single largest influence on wholesale performance
- » Increased generation from better hydrology and inclusion of West Wind improved generation volumes by 1,625GWh at prices consistent with last year
- » Reduced periods of price separation resulted in a reduction of constraint rental rebates received this year
- » New wind maintenance costs (West Wind) and enhancement to other wind maintenance contracts coupled with hydro maintenance (Gate 18) were principal drivers of operating costs

Retail Performance



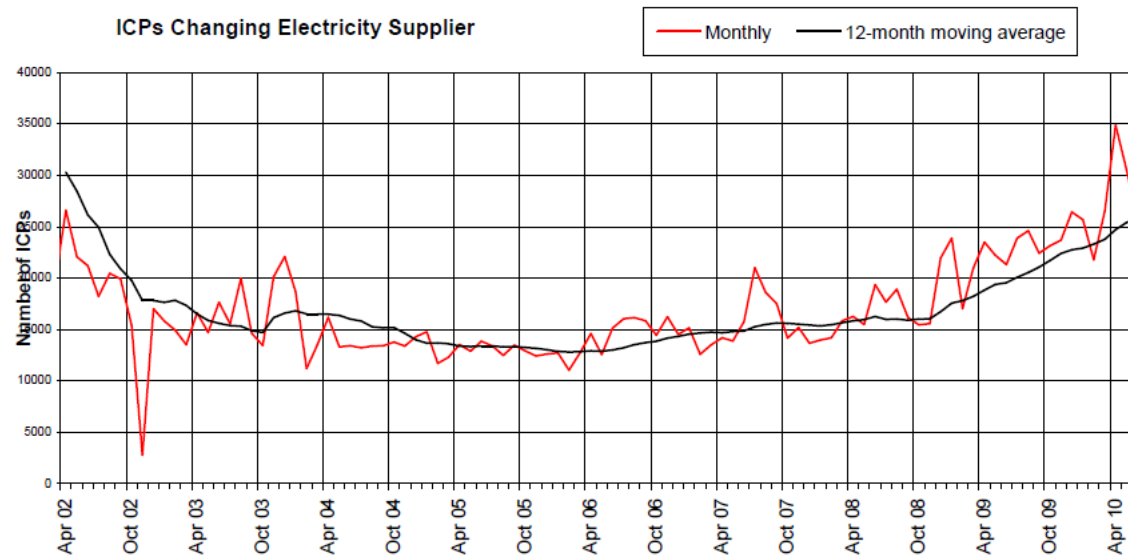
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\$M	Jun 10	Jun 09	% Change
Retail Revenues	979.7	969.5	↑ 1%
Electricity Purchase Costs	(453.8)	(495.0)	↓ 8%
Distribution & Levies	(321.9)	(298.4)	↑ 8%
Employee & Other Operating Costs	(62.2)	(61.8)	↑ 1%
EBITDAF	141.9	114.3	↑ 24%
EBITDAF per MWh Sold	\$ 18.52	\$ 14.50	↑ 28%
Fixed Price Electricity Sales GWh	5,823	6,034	↓ 3%
Spot Price Electricity Sales GWh	1,835	1,848	↓ 1%
Total Electricity Sales MWh	7,658	7,882	↓ 3%
Average Electricity Purchase Price	\$ 58.05	\$ 62.13	↓ 7%
EBITDAF @ \$80MWh Purchase Price	0.8	(7.4)	↑ 111%

- » Revenue improved despite a decline in electricity sales volumes and a residential price freeze, reflecting changes in customer mix and close collaboration with our wholesale business
- » Retail prices not currently high enough to support long run energy costs (current energyhedge implied annual price is greater than \$80MWh)

Increasing Retail Competition

- » Overall market churn (annual switching) has increased from 9% to 16% from July 2008 to June 2010, with new South Island market entrants and high urban churn rates
- » Churn is expected to continue at these levels or higher
- » A more competitive market, with flat near term demand, is likely to put pressure on margins relative to energy costs and increase the cost of maintaining market share



Source: Electricity Commission



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Renewable Generation Options

Project*	Indicative Timing	Indicative Build Cost
Te Uku	2009-11	\$200m
Central Wind	2011-12	\$340m
North Bank Tunnel	2013-18	\$1-1.2b
Hayes	2013+	Up to \$1.8b
Mokihinui	2013-16	\$300m
Mill Creek	2012-13	\$200m
Hurunui	2013-14	\$250m
Hunter Downs	2014-16	\$230m

* Sites currently consented or in consent process – excludes sites under investigation

Name Mokihinui
Size 85-100 MW, ~360 GWh
Stage Environment Court appeal



Name Hurunui Wind
Size 80.5 MW, ~280 GWh
Stage Consultation



Name Hunter Downs Irrigation
Size Up to 40000Ha irrigated
Stage Environment Court appeal (water take only)



Name North Bank Tunnel
Size 280 MW, ~1400 GWh
Stage Water take consented



Name Project Hayes
Size Up to 630MW, 2200GWh
Stage Environment Court appeal



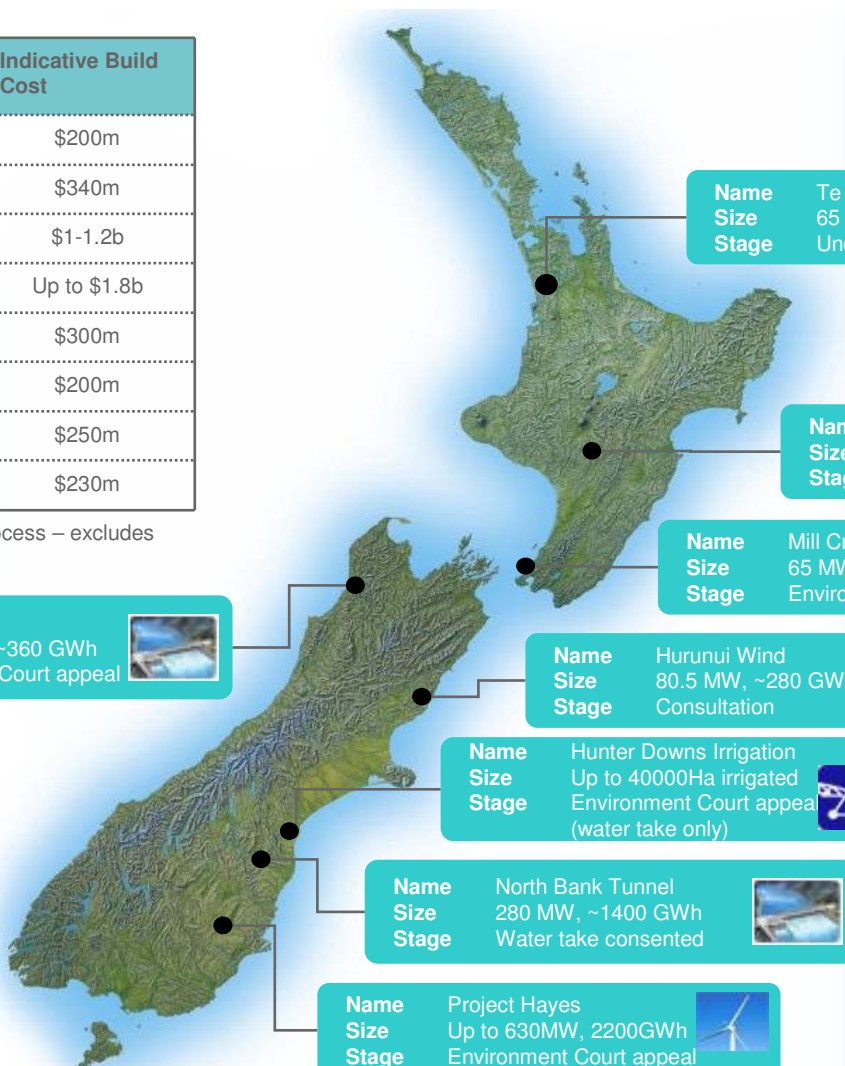
Name Te Uku
Size 65 MW, ~240 GWh
Stage Under Construction



Name Central Wind
Size 120 MW, ~410 GWh
Stage Consented



Name Mill Creek
Size 65 MW, ~260 GWh
Stage Environment Court appeal



Investing in New Generation

Challenges

- » Consent processes – West Wind 2 years, Project Hayes 3 years to date, Mill Creek final decision expected to take 3 years, Mokihinui 2 years to date
- » Short term demand fluctuation
- » Highly volatile currency
- » Market valuation – listed competitors trading at a discount to DCF
- » Regulatory uncertainty

Our Response

- » Take a long term view – our assets are multi-decade and multi-century in nature
- » Focus on building the best portfolio of options we can
- » Invest on economic fundamentals

West Wind



- » First power in March 2009 and fully commissioned by October 2009
- » Generated 568GWh since first power, this would power approximately 66,000 homes
- » 3 months with capacity factors of 50% or greater, including 55% in October 2009
- » Helped keep lights on in Wellington during outage at Haywards substation on 22 Sept 2009 – generating 90MW
- » Delivered ahead of schedule



Other NZ New Generation

- » **Te Uku wind farm – 64.4 MW 28 turbine wind near Raglan**
 - » Roads completed with majority of turbine foundations poured
 - » First power expected in Dec 2010, fully commissioned by Feb 2011

- » **Manapouri Tailrace Amended Discharge**
 - » Granted by Environment Southland on 14 July 2010
 - » Increases maximum allowable water discharge through Manapouri Power Station
 - » Provides an average additional 89GWh of electricity a year, which is enough to provide energy to around 11,000 average households

- » **Ross Island Wind – 3 x 330kW wind farm supplying Scott Base and US McMurdo Station**
 - » Alliance with Antarctica NZ and supported by National Science Foundation (US)
 - » Commissioned in Jan 2010 – saves 462,000 litres of diesel fuel annually



Overseas Development



- » Meridian's overseas growth strategy is to look regionally for opportunities to grow shareholder value and leverage core competency
 - » Applying core competency in wind in Australia's supportive regulatory environment
 - » Improving wind procurement scale and broadening our specialist base
 - » Investing in markets with strong and stable regulatory support for renewables
 - » Building new capability and direct investment experience in Solar Energy – the next renewable technology following wind

Innovation



- » A strong portfolio of subsidiaries and business units operating innovatively beyond the standard electricity industry supply chain, at various stages of development
- » Improved commercial focus is starting to yield results

Powershop

- » Sevenfold customer increase, with 92% customer satisfaction

Energy for Industry

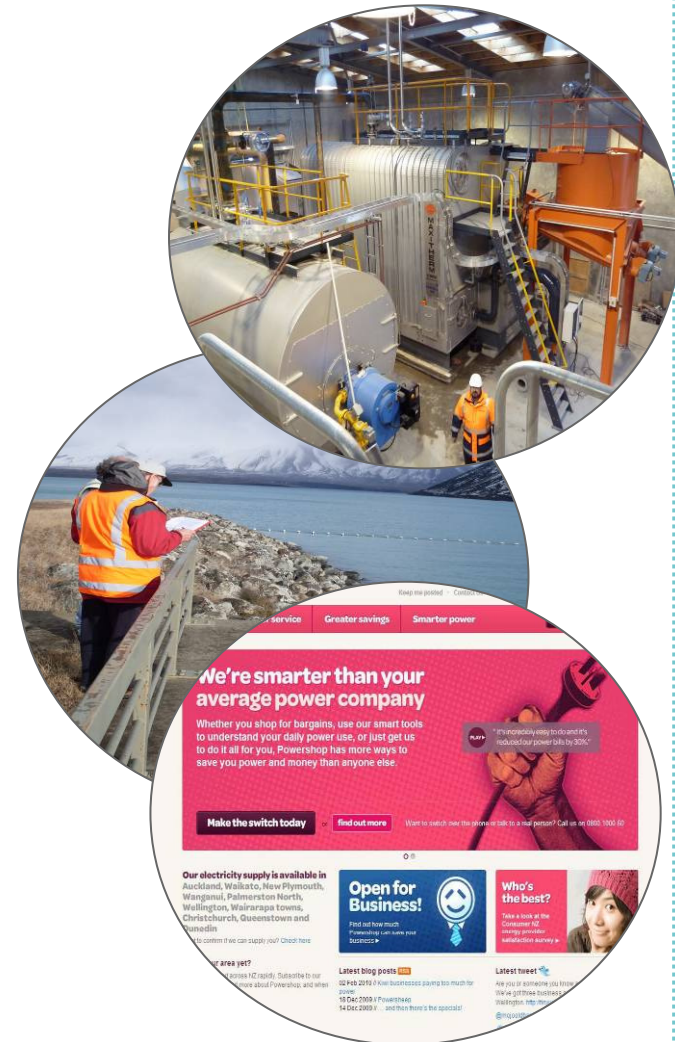
- » 2 EECA awards for industrial projects

Arc Innovations

- » Moved to profitability and top level of operational performance

Whispertech

- » Reached manufacturing stage



Ministerial Review - Package



- » Aimed at improved security of supply and increased level of retail competition
- » Virtual asset swaps, long term contracts for difference, between Meridian, Genesis and Mighty River Power (MRP) give Genesis and MRP South Island capacity and Meridian North Island capacity
- » Sale of 185MW hydro stations, Tekapo A and B by Meridian to Genesis – 969GWh of generation last year, 7.0% of total Meridian generation
- » Sale of 155MW Whirinaki diesel plant from the Crown to Meridian
- » Scarcity pricing regime during conservation campaigns
- » Implementation of an active market for trading financial hedge contracts for electricity
- » Lines businesses to be permitted to retail electricity and to construct some generation

- » A large number of details have been agreed and resolved, some items are still under review
- » Legislation will come into force on 1st October 2010

Ministerial Review – Major Impacts on Meridian



- » Transfers of Tekapo assets and virtual asset swaps
 - » Alters Meridian's ideal portfolio of retail customers
- » Transfer of Whirinaki
 - » Has some limited ability to improve dry winter risk for Meridian
- » Scarcity pricing regime
 - » Can potentially impact on Meridian's risk position but still not fully formed
- » Liquid hedge market
 - » Currently Meridian is the largest trader on the ASX and Energy Hedge
 - » Australian and Scandinavian experience suggests it will take some years to build to critical mass

Ministerial Review – Progress to Date



- » Final elements of the package are under discussion – Tekapo sale price and terms, Waitaki water management agreements, Whirinaki sale price, exact terms of virtual asset swaps
- » We have engaged openly and effectively with all parties
- » Most items have been agreed between the parties involved with limited outstanding matters
- » Meridian has already started portfolio rebalancing increasing the level of retail competition
- » ASX platform for the electricity hedge market has been chosen and is underway

Outlook



- » Year started with Waitaki lake storage at 122% of average
- » July and August have seen relatively low market prices
- » We do expect improvement but our projections suggest a likely NZ electricity gross margin slightly below last year (as adjusted for the Tekapo transfer)
- » Conditions can change rapidly if we encounter dry conditions, particularly while the HVDC link remains constrained
- » This year will see the benefits of Australian growth, Fit for Purpose cost reductions and improved subsidiary performance
- » Retail competition is expected to remain intense

Supplementary Information



- » Key Financial Ratios
- » Asset Performance

Key Financial Ratios



	Jun 10 SCI Target	Jun 10	Jun 09	Change
Equity to Total Assets	54.2%	58.2%	59.7%	↓ 1.5%
Return on Average Equity	5.6%	3.9%	2.1%	↑ 1.8%
Underlying Return on Average Equity (excl. Revaluation)	20.1%	19.8%	15.6%	↑ 4.2%
Net Debt / (Net Debt plus Equity)	27.4%	22.4%	20.9%	↑ 1.5%
EBITDAF Interest Cover (# times)	6.7	6.7	5.9	↑ 0.8
EBITDAF per MWh Generated (\$ per MWh)	\$45.1	\$46.3	\$41.9	↑ \$4.4
Free Funds from Operations (FFO) Interest Cover	>5.0	5.7	5.4	↑ 0.3
FFO / Debt	Not < 35%	29.9%	34.4%	↓ 4.5%

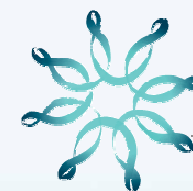
- » Gearing within target despite our significant investment programme
- » Return on Equity reflects our revaluation (\$1.2 billion) which was not included in our SCI target. Removing this improves our return to 4.3%
- » It is important to remember that our balance sheet is valued based on an upward trending forward electricity price curve. Therefore we are being measured against future earnings
- » FFO interest cover in-line with targets for BBB+

Asset Performance



	Target	Jun 10	Jun 09
Plant Availability - Hydro	92.7%	91.3%	92.6%
Plant Forced Outage Factor	0.34	1.47	0.43
Plant Availability - Wind	95.7%	96.0%	95.6%

- » Hydro Availability - planned maintenance & refurbishments (7%), forced outages (1.5%) , and Gate 18 repairs (0.2%)
- » Hydro Forced Outage Factor, only a 110 day, minor technical event with no revenue impact stopped us meeting our target
- » Wind Availability, met our challenging SCI target again
- » Building in-house wind maintenance capability
- » Always looking to get more out of our assets – Benmore refurbishment will improve water efficiency by 3%, and successful consenting of additional discharge at Manapouri will add 89GWh of generation



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